CA2ALPMC
A56
1987 c.v

LEGISLATURE LIBRARY
SEP 7 1988
EDMONTON

Alberta PETROLEUM MARKETING COMMISSION

1987 ANNUAL REPORT

Alberta PETROLEUM MARKETING COMMISSION

1900, 250 Sixth Avenue S.W., Calgary, Alberta, Canada T2P 3H7 Telex 03-821978 (403) 297-5500

June 30, 1988

The Honorable Dr. Neil Webber
Minister of Energy
Government of Alberta
Legislature Building
Edmonton, Alberta
T5K 2B6

Dear Sir:

In accordance with the provisions of the Petroleum Marketing Act, the Natural Gas Pricing Agreement Act and the Take-or-pay Costs Sharing Act, the Alberta Petroleum Marketing Commission has prepared a general report summarizing its transactions and affairs for the fiscal year ended December 31, 1987. I have the pleasure to submit the 1987 Annual Report that you may lay a copy before the Legislative Assembly.

Respectfully,

D.A. Lucas
Chairman

TABLE OF CONTENTS

CHAIRMAN'S MESSAGE	5
MARKET OVERVIEW	7
PETROLEUM	11
NATURAL GAS	13
REGULATORY AFFAIRS	15
FINANCIAL STATEMENTS	17

Alberta Heritage, an original oil painting by Karl E. Wood, depicts the rugged majesty of Alberta's Rocky Mountains and two enterprises that are the foundation of Alberta's economy: cattle ranching and oil and gas exploration.

Honored by being selected as the patron and feature artist of the 1988 Calgary Exhibition and Stampede Western Art Show, he has contributed to many prestigious collections throughout the world.

Karl Wood was born in Winnipeg in 1944 and now lives in the Ghost River area northwest of Cochrane, Alberta with his wife Marie and their sons Robert and James.

MESSAGE FROM THE CHAIRMAN

As a result of OPEC production discipline, crude oil prices recovered from 1986 levels and remained relatively stable for most of the year. Increased crude oil production in Alberta led the Commission to embark upon new sales in Canada and the United States.

Natural gas prices in Canada and the United States remained under pressure. However, modest recovery of demand in the United States and improved access to this major market permitted a 34 percent increase in exports. Further progress was also achieved in the transition to market-oriented pricing within Canada as a result of both industry initiatives and government and regulatory actions. The restructuring of supply arrangements in the domestic market remains a key challenge.

In addition to its ongoing activities as a crude oil marketer, the Commission experienced its first full year of operations under new responsibilities resulting from the deregulation of natural gas prices. Included was the implementation of systems for the gathering and analysis of information regarding the purchase and sale of marketable natural gas produced in Alberta.

Under its mandate to represent the Government of Alberta at regulatory proceedings in Canada and the United States which affect the value of the province's crude oil and natural gas production, the Commission was particularly active in hearings before federal and provincial regulators in Canada which dealt with the transition to market-oriented pricing of natural gas.

The Commission's increased activity levels during the year were accomplished within the environment of the Province's budget restraint program which saw the Commission's staff complement significantly reduced.

PETROLEUM MARKETS

OPEC regained some control of the world oil market in 1987. The end of 1986 was characterized by substantial oversupply, with prices approximately $4.00 below OPEC's US$18.00 per barrel target. In December 1986, OPEC introduced a new control system consisting of the Official Sales Price and production quotas. In spite of price volatility created by OPEC oversupply, world oil prices fluctuated around the OPEC target.

World oil stocks climbed in July, in anticipation of a supply disruption as hostilities between Iraq and Iran escalated. As demand for higher inventories rose, OPEC members increased production above quota levels in an effort to regain revenues lost in the earlier production cutbacks. Overstocking and continued overproduction throughout the third and fourth quarters weakened prices at a time of normally high demand. In late November, when the market recognized that a supply disruption was unlikely, security of supply translated to oversupply and price weakness.

At its 82nd conference in December, OPEC decided to carry over production quotas from the latter half of 1987 to the first half of 1988. The indefinite outcome of the conference resulted in world oil prices dropping to their lowest levels of the year.

In the United States, the 1987 oil price recovery did little to affect the supply trends established by the price crash of 1986. Continued increases in domestic petroleum demand, coupled with falling domestic production, necessitated further increases in imports. Petroleum product demand increased by two percent, a slightly slower growth rate than in 1986. Residual fuel oil's 12 percent decline was the major reason for the slowdown in demand growth. This reversed the previous year's experience, when residual fuel oil captured market share from natural gas in the electric utility and industrial sectors.

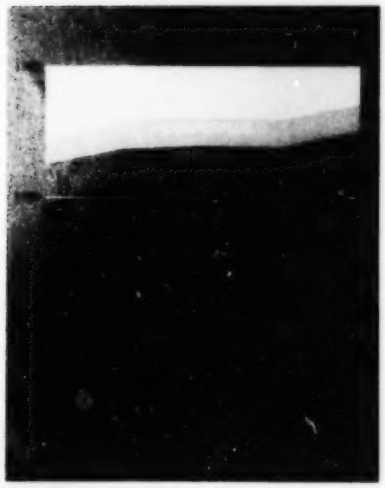
Despite record Alaskan production, United States crude oil output declined almost four percent to 1.3 million cubic metres per day (8.3 million barrels per day).

Though there was an upturn in exploration and production activity from the low points of the previous year, levels were still far below those required to reverse the production decline trend. To bridge the gap between declining production and growing consumption, the United States increased crude oil imports by an additional 73 thousand cubic metres per day (459 thousand barrels per day) to a total of 730 thousand cubic metres per day (4.6 million barrels per day).

Canada shared in supplying these additional crude oil requirements as exports to the United States increased six percent, to a yearly average of 96 thousand cubic metres per day (605 thousand barrels per day). Of this amount, 73 thousand cubic metres per day (459 thousand barrels per day) was Alberta production (Figure 1).

In Canada, economic growth resulted in a three percent rise in total petroleum product sales. Heavy fuel oil experienced a significant ten percent growth. Much of this growth occurred in the electric power generation market in the Atlantic provinces. Diesel fuel sales increased five percent, while gasoline sales increased marginally.

Canadian refinery runs increased four percent over 1986 levels. These increases were evident throughout Canada, especially in the Atlantic region with the September re-commissioning of the refinery at Come-by-Chance, Newfoundland. This refinery uses imported crude oil as a feedstock and exports refined products to the northeastern United States. In Quebec, crude oil imports accounted for 67 percent of provincial requirements. Domestic crude oil demand in Canada increased by two percent over 1986 levels.



Canadian production of crude oil increased four percent to 260 thousand cubic metres per day (1.6 million barrels per day). As shown in Figure 2, crude oil production in Alberta increased by five percent, averaging 215 thousand cubic metres per day (1.4 million barrels per day).

Improved netbacks, increased infill drilling activity and the introduction of the Modified Prorationing Program in June allowed Alberta production of light and medium crude to grow by three percent to 130 thousand cubic metres per day (819 thousand barrels per day).

The Syncrude Canada Ltd. plant set record production levels, averaging 21.8 thousand cubic metres per day of synthetic crude oil (137 thousand barrels per day), up five percent over 1986, the previous record setting year. Esso Resources Canada Limited increased capacity at its Cold Lake facility during 1987 with production averaging 12.2 thousand cubic metres per day (77 thousand barrels per day). Shell Canada Limited's Peace River project came on stream, averaging 700 cubic metres per day (4 thousand barrels per day) of bitumen production.

Domestic sales of Alberta-produced crude oil increased two percent, accompanied by a more significant six percent increase in export sales.

NATURAL GAS MARKETS

Total sales volumes of Canadian natural gas increased nine percent over 1986 levels. A 34 percent increase in exports more than offset a one percent decrease in domestic sales. While overall deliveries of Alberta-produced natural gas increased, the province's total share of the domestic and export markets declined two percent.

In the United States, natural gas demand increased three percent to 473 billion cubic metres (16.7 trillion cubic feet). Demand increased due to an overall improvement in industrial performance, price competitiveness with fuel oil and an increase in heating requirements due to colder temperatures. Natural gas use in the electric generation sector also increased as low water levels significantly reduced hydro-generated output.

Excess supply continued to dominate the United States natural gas market. This created downward pressure on prices during the summer months. As demand increased towards the year-end heating season, prices rose dramatically. Supply was also constrained in part by abnormally cold temperatures in certain producing regions which caused deliverability problems.

The release of the Federal Energy Regulatory Commission's Order 500 in August, requiring producer take-or-pay accommodation, also

created uncertainty among producers, resulting in some reluctance on their part to sell natural gas on the spot market. Difficulty in securing supply prompted some buyers to move from spot transactions to multi-month supply arrangements late in 1987.

Transportation of contract carriage volumes on interstate pipelines was up 43 percent from the previous year. These deliveries, as a share of the total pipeline throughput for the year, increased to 65 percent, with several pipelines as high as 85 percent. This growth in contract carriage volumes was prompted by the acceptance of "open access" transportation certificates by a growing number of interstate pipelines. Canadian natural gas exporters were able to capitalize on increased demand and improved access to United States pipelines. Canada's share of the United States market increased from five to six percent. Although annual Canadian export volumes rose 34 percent to 28 billion cubic metres (990 billion cubic feet), revenues from these sales increased by just two percent. The most substantial market gain occurred in California, followed by the Midwest, largely due to the settlement of contract disputes and improved pipeline access. In addition, new long-term sales were made in the Northeast region. The disposition of Alberta-produced natural gas exports to the United States is shown in Figure 3. Alberta-produced natural gas exports were up 30 percent in 1987; in addition, Alberta's share of total Canadian exports increased (Figure 4).

The year was also marked by two significant policy developments affecting Canada's natural gas exports. In September, the National Energy Board replaced its formula-based approach to determining whether proposed natural gas exports are surplus to foreseeable Canadian requirements with a more responsive, market-based procedure. In October, Canada and the United States reached a free trade agreement, the acceptance of which will assure access to the United States energy market and establish a long-term, stable trading environment.

In the domestic market, intra-Alberta sales revenues declined 19 percent. Revenues from interprovincial sales were 26 percent lower than 1986. Renegotiated prices, applicable to existing system sales, contributed to lower revenues. By year-end, natural gas sold through direct sales accounted for 30 percent of Alberta's interprovincial sales.

The average price at the Alberta border for Canadian sales of Alberta natural gas remained below the export price. From June until October, the average export

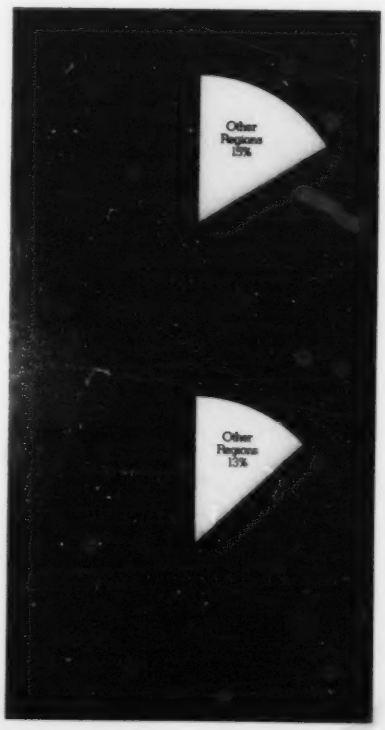
price declined 42 cents per gigajoule, coming within two cents of the average domestic price. Over the last two months of the year, higher spot prices in the United States combined with lower domestic prices to widen once again the gap between domestic and export prices. By December, this gap was 23 cents per gigajoule (Figure 5).

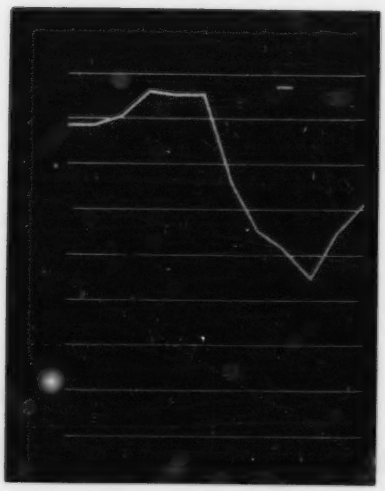
Alberta's market share of interprovincial sales declined from 82 percent to 76 percent, despite the lowering of prices, as illustrated in Figure 6. The disposition of Alberta-produced natural gas in the domestic market is shown in Figure 3.

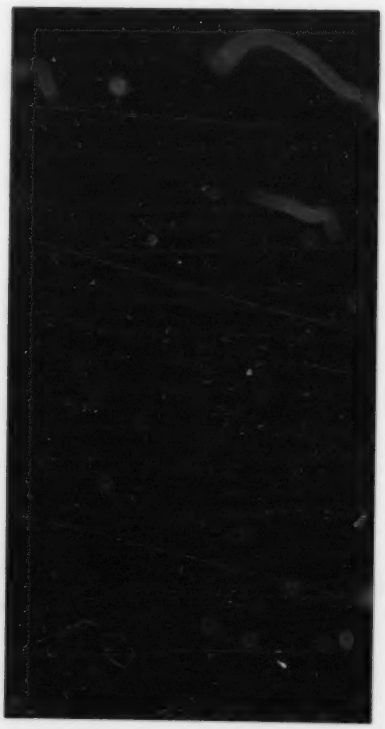
Overall, domestic demand for natural gas dropped marginally in 1987, mainly as a result of unseasonably warm weather in the first and fourth quarters. The largest declines in demand were in the Prairie region.

With competitive forces testing the boundaries of market-oriented pricing for the natural gas trade, regulatory decisions also contributed to the definition of the domestic market's structure. Early in the year, provincial regulators in Ontario and Manitoba sent distributors back to the negotiating table by approving for one year only the two-year natural gas purchasing arrangements the distributors had concluded with TransCanada PipeLines Limited (TCPL). By early fall, the renegotiations between TCPL and the distributors were successfully concluded and provincial regulators subsequently approved the renegotiated gas costs in 1987/88 rates.

The Alberta government took steps to define that segment of the market requiring supply security through a joint hearing of the Energy Resources Conservation Board and the Public Utilities Board. The inquiry offered recommendations on how to ensure such security at reasonable and just prices while minimizing market interference.







OVERVIEW OF OPERATIONS

Under the authority of the Petroleum Marketing Act, the Commission, acting as agent, sells the royalty share of crude oil produced on Alberta's Crown leases as well as the province's share of synthetic crude oil production from the Syncrude Canada Ltd. (Syncrude) project. The Commission also markets crude oil for producers under its mandate to provide marketing services on a contract basis. In 1987 the Commission provided marketing services to over 200 producers. By virtue of these activities, the Commission is the highest volume seller of crude oil in Canada.

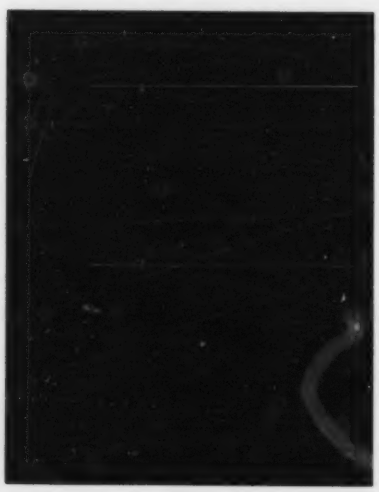
The Commission gathers crude oil from over 1,000 receipt points in Alberta. From these field locations, the oil is shipped via 16 major feeder pipeline systems to central locations for refining in Alberta or for transportation via interprovincial pipelines to other destinations within Canada, the United States and offshore.

The Commission draws upon its direct involvement in the marketing, pricing and transportation of crude oil to advise the Government of Alberta on market conditions and related matters. During 1987, Commission staff participated actively on industry/government task forces addressing issues related to crude oil marketing and transportation.

SALES

In spite of international surpluses of crude oil, market perceptions swung between prospects of supply gluts and disruptions because of continuing hostilities in the Persian Gul However, a balance was, for the most part, maintained, as reflected by average monthly futures prices for West Texas Intermediate crude oil which ranged from US$17.26 to $21.28 (Figure 7).

The completion of Interprovincial Pipe Line Limited's (IPL) major expansion project helped reduce the shut-in problem which had plagued Alberta's producing industry for the past two years. This pipeline expansion allowed major changes to be made in the regulation of the province's light and medium crude oil production. On June 1, the Energy Resources Conservation Board introduced its Modified Prorationing Program (MPP) on a trial basis, further advancing market deregulation.



The MPP, which effectively returned control of production levels to producers, combined with IPL's pipeline capacity increase, caused a realignment of Canadian supply relationships and a general expansion of markets for Canadian crude oil. The Commission responded to this new environment by increasing shipments on the IPL system and initiating new sales of light and medium crude to Canadian and United States refiners. By year-end, the Commission was one of the high volume shippers on this pipeline.

Figure 8 illustrates the royalty share of Alberta's 1987 conventional crude oil production. Receipts of light and medium royalty oil varied from February's low of 511 thousand cubic metres (3.2 million barrels) to 840 thousand cubic metres (5.3 million barrels) in December, for an annual total of 8.5 million cubic metres (53.3 million barrels). Total Alberta production of light and medium crude oil was 47.3 million cubic metres (297.7 million barrels), as compared to 46.1 million cubic metres (289.8 million barrels) in 1986.

Royalty receipts of heavy crude oil and bitumen rose from 60 thousand cubic metres (379 thousand barrels) in February to 83 thousand cubic metres (520 thousand barrels) in December. Total royalty receipts were 852 thousand cubic metres (5.4 million barrels), the result of a 16 percent increase in heavy crude oil production.

Total revenue from the sale of the royalty share of conventional crude oil production in 1987 was $1.3 billion, up $224 million from the previous year.

PRICING

The Commission's reference prices shown in Table 1 are based on sales revenue net of transportation costs to Edmonton. Quality adjustments and pipeline tariffs are deducted from these prices to determine field prices for more than 5,000 producing battery locations. The average of these field prices was $144.20 per cubic metre ($22.91 per barrel), up 19 percent from 1986.

TABLE 1

1987
CRUDE OIL REFERENCE PRICES
(dollars per cubic metre)

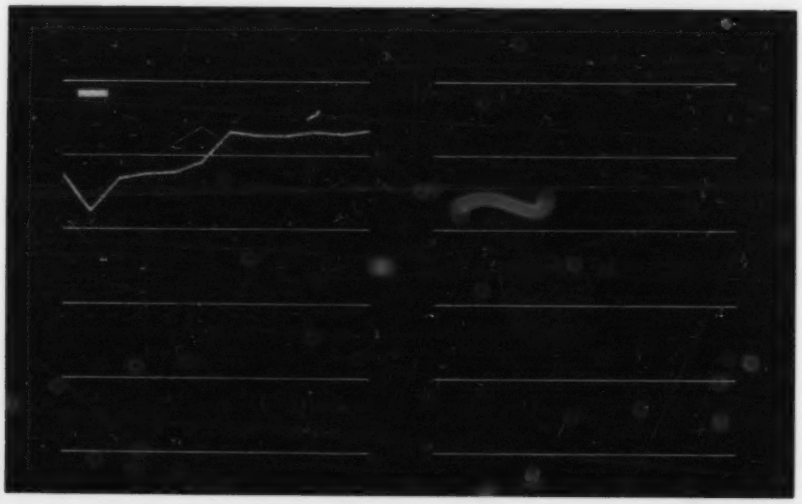
	SWEET CRUDE	SOUR CRUDE
January	137.18	132.68
February	151.39	146.89
March	144.69	140.69
April	147.51	145.51
May	154.35	152.65
June	156.24	154.74
July	165.16	163.66
August	166.79	165.29
September	158.21	156.71
October	155.48	153.98
November	154.05	152.75
December	142.72	141.42

The reference prices reflect crude oil with a density of 825 kilograms per cubic metre and a sulfur content of not more than five grams per kilogram delivered, respectively, into either sweet or sour pipelines.

SYNTHETIC CRUDE

The province has a 16.74 percent equity participation in the Syncrude project and receives a 50 percent share of the project's deemed net profits in lieu of royalty. During the year, net profits accruing to the Crown from the project were taken as production in kind and marketed by the Commission, along with the province's equity share of production.

The volume of synthetic crude oil production sold by the Commission during 1987 was 1.4 million cubic metres (8.5 million barrels), up marginally from the previous year.



OVERVIEW OF OPERATIONS

Since the deregulation of natural gas prices on November 1, 1986, the Commission's activities have included the determination, at the request of producers and purchasers, of costs, charges and revenues representing components of the price of natural gas; the issuance of findings of producer support for netback pricing arrangements; the collection and analysis of information on Alberta natural gas prices and markets under the Natural Gas Marketing Act (NGMA) and the determination of take-or-pay levies and payment of take-or-pay costs under the Take-or-pay Costs Sharing Act.

During 1987, the Commission finalized several matters associated with the period of price regulation under the Natural Gas Pricing Agreement Act. These included the auditing and resolution of outstanding matters associated with both the Natural Gas Pricing Agreement Act Fund and Market Development Fund, as well as with determinations of Alberta Cost of Service.

NATURAL GAS MARKETING ACT

Services Relating to Price Components

Under the authority of Part 1 of the NGMA, the Commission may agree to provide any of the following services: the determination, confirmation or verification of price components; the making of decisions respecting the redetermination or calculation of adjustments to price components; and any other services that pertain to determining price components. The Commission provided price component services to four clients on a cost recovery basis.

Producer Support for Downstream Pricing

Where producers and buyers agree to a netback pricing clause in their natural gas purchase contract, Part 2 of the NGMA provides for producer input to the resale price. The buyer is required to obtain support of a minimum of 70 percent of producers by volume of supply and 51 percent by number. Approval is obtained through a voting procedure that enables individual producers to vote in favour of or against a proposal. The shipper then presents evidence of approval to the Commission which, if satisfied that the criteria have been met, issues a finding of producer support.

Since November 1986, the Commission has processed 50 applications in respect of producer support. A shipper of netback gas removing natural gas from Alberta or delivering natural gas within Alberta without a finding of producer support may be subject to penalties imposed by the Commission.

Information Collection

Effective November 1, 1986, the Commission began collecting information concerning the purchase and sale of Alberta marketable natural gas. The data collected includes field purchase information provided primarily by first buyers. In addition, information on consumption within Alberta is provided by large volume end-users and designated distributors. Ex-Alberta sales information is provided by the owners of the natural gas at the time it leaves Alberta.

The information is collected on a confidential basis for use by the Minister of Energy in verifying royalty payments; establishing average market prices for determining the royalty share of natural gas production; monitoring progress under the October 31, 1985 Agreement on Natural Gas Markets and Prices (October 1985 Agreement); and developing government policies.

TAKE-OR-PAY COSTS SHARING ACT

The National Energy Board (NEB), under the terms of the October 1985 Agreement, was requested to review the availability of transportation service on the TransCanada PipeLines Limited (TCPL) system, taking into account the equitable and fair sharing of take-or-pay charges. In its May 1986 report, the NEB recommended the sharing of take-or-pay costs by Alberta non-system gas transported on the system and that sharing arrangements be administered by the Government of Alberta.

In response, the Government of Alberta enacted the Take-or-pay Costs Sharing Act which, commencing November 1, 1986, provided for the sharing of TCPL's and Consolidated Natural Gas Limited's (Consolidated) take-or-pay financing costs by way of a monthly levy on users of the TCPL system whose shipping arrangements were entered into after October 31, 1985.

The Commission makes monthly determinations of levies to be applied to TCPL producers, Consolidated producers, and to certain shippers on the NOVA Corporation of Alberta system. It also determines, on a monthly basis, the quantities of natural gas exempted from the levies. Revenues derived from the assessment of levies are deposited in the Take-or-pay Costs Sharing Fund, for subsequent payment of take-or-pay financing costs. 1987 revenues contributed by shippers other than TCPL and Consolidated producers amounted to seven percent of the total.

NATURAL GAS PRICING AGREEMENT ACT

Under provisions of the Natural Gas Pricing Agreement Act, the Commission had authority to redetermine the Alberta Cost of Service for an original buyer for any month up to and including October 1986 in order to reflect adjustments to costs and charges. With effect from November 1, 1987, the Commission makes redeterminations in compliance with decisions of the Alberta Public Utilities Board (PUB). During the year, the PUB issued five decisions with respect to appeals of Commission determinations of Alberta Cost of Service.

REGULATORY AFFAIRS

Throughout 1987 the Commission, on behalf of the Government of Alberta, participated in or monitored regulatory proceedings in Canada and the United States. The Commission's level of participation is determined by the potential impact of the issues on sales of Alberta-produced crude oil and natural gas.

In Canada, the Commission was active in proceedings before the National Energy Board (NEB) and provincial regulators in Manitoba and Ontario. In the United States, the Commission's attention was focussed on proceedings before the Federal Energy Regulatory Commission (FERC), the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC).

CANADA

The Interprovincial Pipe Line Limited (IPL) 1987 tolls hearing before the NEB, which commenced in 1986, was completed in January. The Commission advocated the adoption of a new capacity-related surcharge on heavy crude oil shipments to reflect the actual transportation costs. In its June decision, the NEB established pro tem capacity surcharges on medium and heavy crude oil shipments and directed IPL to review and submit alternative methodologies for calculating such surcharges.

The TransCanada PipeLines Limited (TCPL) 1987 tolls hearing also concluded early in the year. The most significant of several toll and tariff changes was the Commission-supported clarification of the Operational Demand Methodology, which prohibited automatic reversion to distributors of pipeline capacity lost to direct sales. The Commission also took issue with projected increases in financing and operating costs, recovery of prior period revenue deficiencies and the requested rate of return. In its decision, the NEB denied TCPL's requested ten percent toll increase and resolved the majority of the Commission's concerns.

The Commission participated actively in defence of the sanctity of existing long-term contractual arrangements in the February Manitoba Public Utilities Board (MPUB) hearing/inquiry into natural gas rates charged to distributors and the impact of deregulation on Manitoba natural gas prices. In its report, the MPUB found that a competitive market did not currently exist in Manitoba and that deregulation would be a process evolving over several years. The two-year purchasing arrangements between the Manitoba distributors and TCPL were approved for one year only. The Manitoba government subsequently designated the Manitoba Oil and Gas Corporation (MOGC) as agent for residential, commercial and industrial consumers of natural gas in Manitoba.

In a related hearing held in September, the Commission opposed an application to the NEB by the MOGC directing TCPL to transport natural gas offered by the MOGC for consumption in Manitoba. The arrangements proposed would have permitted replacement of natural gas supplies provided by the Manitoba distributors under supply contracts with TCPL. The NEB found that the MOGC's proposed transportation and sales arrangements constituted self-displacement in substance and were contrary to the public interest. In November, the MOGC requested Leave to Appeal the NEB's decision to the Federal Court of Appeal. The Court subsequently dismissed the application.

The Commission was active at the NEB hearing held in March to review proposals by Westcoast Transmission Company Limited (Westcoast) to credit revenues from interruptible export tolls to its system suppliers. The Commission took the view that these revenues should be credited to all firm export tollpayers. The NEB denied Westcoast's application and put in place a compromise which stipulated that all shippers of Alberta-sourced natural gas would receive the benefit from interruptible sales rather than only those which supplied Westcoast.

A Westcoast general tolls case was conducted by the NEB in May at which the Commission took issue with proposed changes in toll design principles and cost allocation methods. Under the proposed design, short-haul Alberta volumes destined for export would have subsidized longer-haul

volumes from British Columbia. The NEB accepted a Commission-supported compromise position segregating Alberta volumes from British Columbia volumes for cost allocation purposes.

Procedures to establish that natural gas authorized for export is surplus to future Canadian requirements were reviewed at a spring NEB hearing in which the Commission presented evidence supporting reliance on contractual arrangements. A year earlier, the NEB had adopted a reserves-to-production formula but, in light of rapidly changing market circumstances under deregulation, it announced a further review. In its decision, the NEB adopted a market-based procedure which would, in the public hearing context, include three components: (1) an assessment, prepared by the exporter, of the impact of the proposed export on future Canadian energy requirements; (2) a complaints procedure allowing domestic natural gas users to object to proposed exports if they are unable to obtain supply under similar terms and conditions, including price; and (3) a public interest determination of all other relevant factors.

Foothills Pipe Lines (Yukon) Ltd. applied to the NEB to amend its tariffs to facilitate interruptible service for delivery of natural gas to the Northern Border Pipeline system in the United States. Following a hearing in September, which the Commission monitored closely, the NEB approved a two-tiered interruptible service on the southern Alberta portion of the system.

In the summer and fall, the Ontario Energy Board (OEB) held hearings dealing with proposals by Ontario distributors to restructure their rates and realign revenue requirements in keeping with the OEB's earlier generic decision making contract carriage available on Ontario distribution systems. The Commission recommended that the distributors' renegotiated 1987/88 natural gas purchasing arrangements with TCPL be approved on the grounds that the arrangements were consistent with the intent of the October 31, 1985 Agreement on Natural Gas Markets and Prices. In its decision on the phase of the hearing pertaining to natural gas costs in the rates charged by the distributors, the OEB approved these arrangements to October 31, 1988 and indicated that it was not disposed to approve Competitive Market Programs, an element of these arrangements, beyond this date.

The NEB commenced a hearing in late fall to review TCPL's application to construct additional facilities at a cost of approximately $315 million in order to accommodate several natural gas export projects, all of which had been licensed by the NEB. Included was the Alberta Northeast Gas, Limited project. The Commission supported the application and focussed its participation on the justification of the facilities, tariff protection for existing system users and the appropriate tolling methodology. The evidentiary portion of the hearing had not concluded by the end of the year.

UNITED STATES

In January the Commission filed a submission with the FERC requesting a review of Order 256. In its Order, the FERC had ruled that certain cost elements of demand charges included as part of the negotiated export price were acceptable for recovery only in the commodity component of downstream tariffs of U.S. pipelines. The Commission submitted that this decision discriminated against Canadian exports arranged through freely negotiated contracts and had serious implications for future negotiated supply arrangements and the security of the natural gas trade between Canada and the United States. In its response, the FERC reaffirmed its original position, although reversing one element by permitting the majority of costs charged on the NOVA Corporation of Alberta system to be passed through in demand charges.

California

The Commission followed regulatory developments in California closely as the state is Alberta's largest export market. In 1987, the CPUC determined and implemented a major new rate design order which will impact on Canadian natural gas entering the state. The outlook for Canadian natural gas to service the California market was also addressed by the Commission in a submission filed with the CEC.

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Members of the
Alberta Petroleum Marketing Commission

I have examined the balance sheet of the Alberta Petroleum Marketing Commission as at December 31, 1987 and the statement of revenue and expenditure for the Operating Fund and the statement of operations for the Petroleum Marketing Fund for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Commission as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Donald D. Salmon

C.A.
Auditor General

Edmonton, Alberta
April 6, 1988

Alberta PETROLEUM MARKETING COMMISSION

BALANCE SHEET

As At December 31, 1987

	1987	1986
ASSETS		
OPERATING FUND		
Current		
Cash	$ 6,656,107	$ 8,348,671
Accounts receivable	536,761	667,072
	7,192,868	9,015,743
Furniture, equipment and leasehold improvements, at cost (Note 3)	3,536,320	3,565,534
	10,729,188	12,581,277
PETROLEUM MARKETING FUND		
Current		
Cash	30,324,514	38,383,783
Accounts receivable	177,644,780	114,287,420
	207,969,294	152,671,203
	$218,698,482	$165,252,480

The accompanying notes are part of these financial statements.

	1987	1986
LIABILITIES		
OPERATING FUND		
Current		
Accounts payable	$ 333,039	$ 439,048
Payable to the Province of Alberta	5,179,079	6,667,445
Deferred contributions (Note 2)	1,680,750	1,909,250
	7,192,868	9,015,743
Equity in fixed assets (Note 2)	3,536,320	3,565,534
	10,729,188	12,581,277
PETROLEUM MARKETING FUND		
Current		
Accounts payable	71,154,745	54,430,571
Crown royalty payable	136,814,549	98,240,632
	207,969,294	152,671,203
	$218,698,482	$165,252,480

Alberta PETROLEUM MARKETING COMMISSION

STATEMENT OF REVENUE AND EXPENDITURE
OPERATING FUND

For The Year Ended December 31, 1987

	1987	1986
Revenue		
Interest	$2,507,456	$3,423,404
Crude oil marketing fees	3,508,140	4,035,208
Natural gas price component service fees	188,541	-
	6,204,137	7,458,612
Expenditure		
Salaries and employee benefits	4,797,877	4,862,313
Rental and maintenance of premises (Note 4)	1,095,033	1,159,876
Hearing costs	361,423	317,342
Travel, hospitality & conferences	227,408	291,260
Maintenance of equipment	140,899	155,029
Printing and office supplies	103,372	154,425
Technical studies	102,607	130,513
External computer services	101,243	59,554
Personnel services and recruitment	76,292	64,857
Legal	61,499	85,173
Rental of equipment	58,566	62,202
Telephone	38,345	35,609
Publications and periodicals	38,313	35,394
Leasehold improvements	34,553	34,416
Postage and freight	32,305	27,663
Furniture and equipment	18,888	147,045
Bank charges	11,152	6,720
Insurance	5,095	6,834
Miscellaneous	8,810	13,193
	7,313,680	7,649,418
Excess of expenditure over revenue	1,109,543	190,806
Contributions from the Province of Alberta	1,109,543	190,806
	$ -	$ -

ALBERTA PETROLEUM MARKETING COMMISSION

STATEMENT OF OPERATIONS
PETROLEUM MARKETING FUND

For The Year Ended December 31, 1987

	1987	1986
Revenue from sale of crude oil	**$1,996,808,249**	**$1,680,289,429**
Expenditure		
Purchase of crude oil	**406,186,099**	384,759,346
Transportation	**91,555,240**	61,694,901
Remitted to the Province of Alberta		
Conventional royalty oil	**1,295,363,119**	1,071,147,540
Synthetic oil - royalty and equity share	**203,703,791**	162,687,642
	1,996,808,249	1,680,289,429
	$ -	$ -

NOTE 1 AUTHORITY

The Alberta Petroleum Marketing Commission operates under the authority of the Petroleum Marketing Act, Chapter P-5, Revised Statutes of Alberta 1980, as amended, and the Natural Gas Marketing Act, Chapter N-2.8, Statutes of Alberta 1986, as amended.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

General

These financial statements have been prepared in accordance with generally accepted accounting principles, with the following exceptions:

a) Purchases of furniture, equipment and leasehold improvements are charged to operating fund expenditure, net of disposal proceeds, in the year of acquisition. However, the balance sheet states the cumulative amount of such expenditures in respect of all fixed assets presently owned with the offsetting credit to equity in fixed assets.

b) Assets and liabilities in foreign currencies have been translated into Canadian dollars at forward exchange contract rates or, where not covered by forward exchange contracts, at the rate of exchange in effect at the balance sheet date.

Deferred Contributions

The portion of contributions received from the Province of Alberta to cover operating costs for the three month period subsequent to the fiscal year end has been deferred. Contributions by the Province are based on a yearly budget for the period April 1 to March 31.

Operating Fund Expenditure

The Natural Gas Pricing Agreement Act Fund and Natural Gas Pricing Agreement Market Development Fund were administered by the Commission pursuant to the Natural Gas Pricing Agreement Act. The Take-or-pay Costs Sharing Fund is administered pursuant to the Take-or-pay Costs Sharing Act. The expenditure related to the administration of these Funds is reflected in the Statement of Revenue and Expenditure - Operating Fund.

Changes in Financial Position

A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Changes in furniture, equipment and leasehold improvements were as follows:

	Balance December 31, 1986	Additions	Disposals	Balance December 31, 1987
Furniture and equipment	$2,744,487	$29,192	$69,178	$2,704,501
Leasehold improvements	821,047	34,978	24,206	831,819
	$3,565,534	$64,170	$93,384	$3,536,320

NOTE 4 COMMITMENT

Effective December 1, 1981, the Commission signed a fifteen year lease for office accommodation at a minimum annual rental of $692,360 plus occupancy costs.

NOTE 5 COMPARATIVE FIGURES

The 1986 figures have been reclassified where necessary to conform to the 1987 presentation.

NOTE 6 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Commission.

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Members of the
Alberta Petroleum Marketing Commission

I have examined the balance sheet of the Take-or-pay Costs Sharing Fund as at December 31, 1987 and the statement of revenue and expenditure for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Donald D. Salmon
C.A.
Auditor General

Edmonton, Alberta
April 6, 1988

TAKE-OR-PAY COSTS SHARING FUND
BALANCE SHEET
As At December 31, 1987

	1987	1986
ASSETS		
Current		
Cash	**$ 1,759,511**	$ 515,178
Accounts receivable	**16,696,759**	18,551,379
	$18,456,270	$19,066,557
LIABILITIES		
Current		
Accounts payable	**$ 6,505,365**	$ 6,481,386
Deferred revenue (Note 3)	**11,950,905**	12,585,171
	$18,456,270	$19,066,557

The accompanying notes are part of these financial statements.

TAKE-OR-PAY COSTS SHARING FUND
STATEMENT OF REVENUE AND EXPENDITURE
For The Year Ended December 31, 1987

	1987	Two Months Ended December 31, 1986
Revenue		
Take-or-pay levies	$ 202,748,916	$ 27,210,815
Interest	88,291	861
	202,837,207	27,211,676
Expenditure		
Take-or-pay costs	202,837,207	27,211,676
Excess of revenue over expenditure	$ -	$ -

TAKE-OR-PAY COSTS SHARING FUND
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1987

NOTE 1 AUTHORITY

The Take-or-pay Costs Sharing Fund was established by the Take-or-pay Costs Sharing Act, Chapter T-0.1, Statutes of Alberta 1986, and came into operation November 1, 1986.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Administration Costs

In accordance with the Take-or-pay Costs Sharing Act, the Fund is administered by the Alberta Petroleum Marketing Commission. Costs of administration are reflected in the Commission's Statement of Revenue and Expenditure - Operating Fund.

Changes in Financial Position

A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 DEFERRED REVENUE

The deferred revenue represents the portion of December levies which will be used to pay future take-or-pay costs.

NOTE 4 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Commission.

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Members of the
Alberta Petroleum Marketing Commission

I have examined the balance sheet of the Natural Gas Pricing Agreement Act Fund as at December 31, 1987 and the statement of revenue, expenditure and fund balance for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Donald D. Salmon
C.A.
Auditor General

Edmonton, Alberta
April 6, 1988

NATURAL GAS PRICING AGREEMENT ACT FUND
BALANCE SHEET
As At December 31, 1987

	1987	1986
ASSETS		
Current		
Cash	$11,347,156	$14,354,890
Accounts receivable	21,702	202,950
	$11,368,858	$14,557,840
LIABILITIES AND FUND BALANCE		
Current		
Price adjustments payable	$ -	$ 27,821
Export differential refund payable	-	3,166,246
	-	3,194,067
Fund balance (Note 4)	11,368,858	11,363,773
	$11,368,858	$14,557,840

The accompanying notes are part
of these financial statements.

NATURAL GAS PRICING AGREEMENT ACT FUND
STATEMENT OF REVENUE, EXPENDITURE AND FUND BALANCE
For The Year Ended December 31, 1987

	1987	1986
Revenue		
Export differential		
Natural gas sales	$ -	$4,178,143,188
Cost of gas sold	-	4,065,981,105
	-	112,162,083
Interest	957,280	7,374,379
	957,280	119,536,462
Expenditure		
Price adjustments	-	60,309,063
Market development incentive payments (Note 3)	247,466	129,663,626
Prior delivery period adjustments, net	704,729	-
	952,195	189,972,689
Excess (deficiency) of revenue over expenditure	5,085	(70,436,227)
Fund balance, beginning of year	11,363,773	-
	11,368,858	(70,436,227)
Transfer of reserve for market development incentive payments	-	81,800,000
Fund balance, end of year	$11,368,858	$ 11,363,773

NATURAL GAS PRICING AGREEMENT ACT FUND
NOTES TO THE FINANCIAL STATEMENTS
December 31, 1987

NOTE 1 AUTHORITY

The Natural Gas Pricing Agreement Act Fund was established by the Natural Gas Pricing Agreement Act, Chapter N-4, Revised Statutes of Alberta 1980, as amended.

Pursuant to the Western Accord and the Agreement on Natural Gas Markets and Prices of October 1985, the Commission ceased the purchasing and selling of natural gas and the distribution of export differential with respect to gas delivered after October 31, 1986.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Administration Costs

In accordance with the Natural Gas Pricing Agreement Act, the Fund is administered by the Alberta Petroleum Marketing Commission. Costs of administration are reflected in the Commission's Statement of Revenue and Expenditure - Operating Fund.

Changes in Financial Position

A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 MARKET DEVELOPMENT INCENTIVE PAYMENTS

In accordance with the Canada-Alberta Memorandum of Agreement respecting Gas Pricing of November 1981 as amended, payments were made to the Government of Canada for the period November 1, 1981 to April 30, 1986 to facilitate the expansion of markets for Alberta-produced gas in provinces east of Alberta. Amendments to the agreement required that additional amounts be paid to the Government of Canada for the purpose of making transportation assistance payments. These additional payments served to maintain tolls charged by TransCanada PipeLines Limited for the period November 1, 1985 to October 31, 1986 at 1984-85 levels. Market development incentive payments were as follows:

	1987	1986
Transportation assistance	$247,466	$ 96,697,034
Expansion of markets	-	32,966,592
	$247,466	$129,663,626

NOTE 4 FUND BALANCE

The Fund balance will be distributed based on October, 1986 deliveries.

NOTE 5 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Commission.

ALBERTA LEGISLATURE

OFFICE OF THE AUDITOR GENERAL

AUDITOR'S REPORT

To the Members of the
Alberta Petroleum Marketing Commission

I have examined the statement of receipts, payments and fund balance of the Natural Gas Pricing Agreement Market Development Fund for the year ended December 31, 1987. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the balance of the Fund as at December 31, 1987 and the receipts collected and payments made for the year then ended in accordance with the disclosed basis of accounting, considered appropriate in the circumstances, as described in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

Donald D. Salmon

C.A.
Auditor General

Edmonton, Alberta
April 6, 1988

NATURAL GAS PRICING AGREEMENT MARKET DEVELOPMENT FUND
STATEMENT OF RECEIPTS, PAYMENTS AND FUND BALANCE

For The Year Ended December 31, 1987

	1987	1986
Receipts		
Market development levies	$ -	$ 28,067,585
Interest	173,251	1,119,087
	173,251	29,186,672
Payments		
Retention incentives	-	24,315,823
Development incentives	-	21,157,829
	-	45,473,652
Excess (deficiency) of receipts over payments	173,251	(16,286,980)
Fund balance, beginning of year	2,129,996	18,416,976
Fund balance, end of year (Note 3)	$2,303,247	$ 2,129,996

The accompanying notes are
part of this financial statement.

NATURAL GAS PRICING AGREEMENT MARKET DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENT

December 31, 1987

NOTE 1 AUTHORITY

The Natural Gas Pricing Agreement Market Development Fund was established by the Natural Gas Pricing Agreement Act, Chapter N-4, Revised Statutes of Alberta 1980, as amended.

Pursuant to the Western Accord, the Natural Gas Markets Incentive Plan, which provided incentives for retention and development of natural gas markets in provinces east of Alberta, ended April 30, 1986.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

General

The Fund's financial statement has been prepared on a cash basis.

Administration Costs

In accordance with the Natural Gas Pricing Agreement Act, the Fund is administered by the Alberta Petroleum Marketing Commission. Costs of administration are reflected in the Commission's Statement of Revenue and Expenditure - Operating Fund.

NOTE 3 FUND BALANCE

The Fund balance is represented by cash and short-term deposits and will be distributed as determined by the Minister of Energy.

NOTE 4 APPROVAL OF FINANCIAL STATEMENT

This financial statement was approved by the Commission.

DIRECTORY

COMMISSION

DALE A. LUCAS
Chairman

DAVID L. WILLIS
Vice Chairman

GORDON R. SCOTT
Member

GENERAL COUNSEL AND SECRETARY

SHEILA F. McALLISTER

CRUDE OIL

GARY E. BAERG
Manager, Crude Oil Supply

GERRY H. BIETZ
Manager, Crude Oil Sales

ROBERT F.C. McDONALD
Manager, Crude Oil Pricing and Planning

DONALD M. OLINECK
Manager, Crude Oil Supply Accounting

NATURAL GAS AND MARKET ANALYSIS

ROBERT H. COOK
Managing Director

VERNON M. THOMAS
General Manager, Natural Gas

EDWIN K. ADAMS
Manager, Audit Operations

WILLIAM A. McKAIN
Manager, Gas Operations

ROBERT McLEAN
Manager, Planning

PATRICK C. TSUEN
Manager, Gas Markets

SPECIAL PROJECTS AND REGULATORY AFFAIRS

CELINE BELANGER
General Manager

JERRY McNAMARA
Manager, Regulatory Affairs

FINANCE AND ADMINISTRATION

GARTH K. PALMER
Managing Director

T.N. RITCHIE FONS
Comptroller

WILLIAM G. HENDERSON
Manager, Financial Accounting - Petroleum

BRIAN R. ZAPFE
Manager, Financial Accounting - Natural Gas and Payroll

HUMAN RESOURCES

OREST L. ZWARICH
Manager

INFORMATION SERVICES

RICHARD W. TOVELL
Managing Director

SAM LEUNG
Manager, Computer Services

DONNA L. SANDEROW
Manager, Systems Development

INTERNAL AUDIT

WILHELM M. ZINKHOFER

as at date of publication

PRINTED IN CANADA